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## BUDGET SUMMARY

### A BREAKDOWN BY THE NUMBERS OF THE PRESIDENT'S PLAN

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#### THE SURPLUS OUTLOOK

President Bush proposes \$2.128 trillion in Federal spending for fiscal year 2003, which begins on 1 October 2002. Federal receipts for that year are recommended at \$2.048 trillion. The proposed combination of spending and revenue results in a deficit of \$80 billion. For fiscal year 2002, the current fiscal year, the administration expects spending of \$2.052 trillion and receipts of \$1.946 trillion, with a resulting deficit of \$106 billion. Near-term deficits would give way to surpluses in fiscal year 2005, under the President's proposal. Over the 5-year budget horizon proposed by the administration, surpluses would total \$157 billion.

**Table 1: The President's Budget Projections**

(by fiscal year, in billions of dollars)

	2002	2003	2004	2005	2006	2007	2003-07
<b>Including Economic Security Plan</b>							
Revenues	1,946	2,048	2,175	2,338	2,455	2,572	11,588
Outlays							
Discretionary Spending	741	789	815	838	858	880	4,180
Mandatory Spending	1,133	1,159	1,185	1,248	1,323	1,402	6,318
Net Interest	<u>178</u>	<u>181</u>	<u>189</u>	<u>190</u>	<u>188</u>	<u>185</u>	<u>933</u>
Total	2,052	2,128	2,189	2,277	2,369	2,468	11,431
Surplus or Deficit(-)	-106	-80	-14	61	86	104	157
<b>Excluding Economic Security Plan</b>							
Revenues	2,008	2,113	2,223	2,348	2,438	2,554	11,675
Outlays							
Discretionary Spending	741	789	815	838	858	880	4,180
Mandatory Spending	1,106	1,151	1,184	1,248	1,323	1,402	6,308
Net Interest	<u>177</u>	<u>176</u>	<u>181</u>	<u>180</u>	<u>177</u>	<u>175</u>	<u>889</u>
Total	2,024	2,116	2,180	2,267	2,358	2,457	11,377
Surplus or Deficit(-)	-16	-3	43	81	80	97	298

The bipartisan economic security plan, which the House passed in December, will have a significant effect on the bottom line. According to the Office of Management and Budget

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[OMB], that legislation would reduce revenues and increase outlays by a total of \$90 billion in fiscal year 2002, \$77 billion in fiscal year 2003, and \$231 billion over the 6-year period 2002 through 2007. As shown in Table 1 on the previous page, failure to reach agreement on the economic security plan will move the budget to surplus in fiscal year 2004.

### **THE PRESIDENT'S DISCRETIONARY SPENDING PROPOSALS**

The budget recommends discretionary budget authority [BA] of \$758 billion for fiscal year 2003. That amount would provide the Appropriations Committee with \$393 billion for defense activities (military and civilian, including \$10 billion for the emergency response fund), and \$365 billion for nondefense activities. Included in those figures is about \$8 billion for homeland security under the Department of Defense, and \$30 billion for such activities under other agencies. According to OMB's estimates, fiscal year 2003 outlays total \$376 billion for defense and \$404 billion for nondefense.

Those figures do not include the impact of the administration's proposal to charge agencies' discretionary appropriations for the full accrual cost of the retirement benefits of employees under the age of 65. That proposal, which does not affect the surplus or deficit but rather whether costs are considered to be discretionary or mandatory, would increase fiscal year 2003 budget authority and outlays by roughly \$9 billion, growing slightly in years after 2003.

Compared with the OMB baseline for fiscal year 2003 – which assumes that the \$20 billion in fiscal year 2002 emergency spending in response to terrorist attacks is one-time spending – defense BA increases by \$40 billion and nondefense BA increases by \$8 billion. Outlays rise by \$28 billion for defense, and \$3 billion for nondefense. Excluding spending from the emergency response fund, discretionary budget authority in 2003 would grow by 11.4 percent for defense, 5.7 percent for nondefense, and 8.5 percent overall. For the 2003-2007 period, the President would have discretionary budget authority grow at an annual rate of 3.7 percent, about 1.3 percentage points faster than the rate of inflation. Defense spending would grow at an average annual rate of 5.0 percent, slightly over twice the rate of inflation, while nondefense BA would grow at 2.3 percent, about the rate of inflation. Table 2 on the next page compares administration policy with the OMB baseline.

Compared with OMB estimates of the Budget Enforcement Act [BEA] baseline for fiscal year 2003 (which is similar conceptually to the baseline projections of the Congressional Budget Office and assumes the continuation of all 2002 emergency spending), the administration calls for an increase of \$36 billion in defense BA, and a *reduction* of \$8 billion in nondefense BA. Year over-year growth relative to the BEA baseline is 13.0 percent for defense, 1.0 percent for nondefense, and 6.9 percent overall.

The administration offsets a small portion of nondefense discretionary spending with various user fees totaling \$1.5 billion in fiscal year 2003 and \$8.8 billion over 5 years. The largest of these imposes a new copayment for veterans' medical care of \$1,500 per year on veterans with

incomes above specified levels. These user fees are considered to be negative spending in the budget, and thus reduce the level of discretionary budget authority contained in the request.

**Table 2: The President's Discretionary Levels**

(by fiscal year, in millions of dollars)

		2002	2003	2004	2005	2006	2007
<b>Defense</b>							
Administration Baseline	BA	347,570	353,222	361,347	369,692	378,764	388,079
	OL	344,792	347,952	355,636	366,484	372,105	377,603
Recommended Change	BA	–	39,523	39,128	51,806	63,751	76,336
	OL	–	27,695	33,527	42,222	51,482	59,714
Administration Policy	BA	347,570	392,745	400,502	421,498	442,515	464,415
	OL	344,792	375,647	389,163	408,706	423,587	437,317
<b>Nondefense</b>							
Administration Baseline	BA	361,720	357,235	366,875	375,393	384,734	394,065
	OL	387,182	401,411	410,967	416,147	423,119	432,814
Recommended Change	BA	–	7,934	11,564	9,708	6,437	6,434
	OL	1	2,970	4,686	3,081	535	-1,016
Administration Policy	BA	361,720	365,169	378,439	385,101	391,171	400,499
	OL	387,183	404,381	415,653	419,228	423,654	431,798
<b>Total</b>							
Administration Baseline	BA	709,290	710,457	728,249	745,085	763,498	782,144
	OL	731,974	749,363	766,603	782,631	795,224	810,417
Recommended Change	BA	–	47,457	50,692	61,514	70,188	82,770
	OL	1	30,665	38,213	45,303	52,017	58,698
Administration Policy	BA	709,290	757,914	778,941	806,599	833,686	864,914
	OL	731,975	780,028	804,816	827,934	847,241	869,115

Note: Figures exclude administration proposal to appropriate for certain retirement costs currently classified as mandatory.

## THE PRESIDENT'S ENTITLEMENT PROPOSALS

For mandatory spending, the budget provides for net increases of \$152 billion over the 2002-2007 period, including \$37 billion from the economic security plan. Over the 10-year period 2003-2012, mandatory initiatives total a net of \$353 billion (see Table 3 on the next page), including \$10 billion for economic security. Medicare reform including prescription drug coverage – at \$190 billion over the 2003-2012 period – accounts for the largest increase in mandatory spending proposed by the President. Partly offsetting mandatory initiatives are almost \$34 billion in mandatory savings, much of which comes from rationalizing drug payments, the President's proposal for the Arctic National Wildlife Reserve, and the spectrum.

**Table 3: The President's Mandatory Proposals**

(by fiscal year, in millions of dollars)

	2002	2003	2004	2005	2006	2007	2003-07	2003-12
Total Mandatory Increases	31,200	18,555	19,559	20,905	35,581	42,002	136,602	386,557
<i>Strengthening Medicare</i>	0	1,680	3,375	5,068	17,485	22,497	50,105	190,159
Total Mandatory Offsets	0	3,658	-6,457	-3,978	-6,781	-2,644	-16,202	-33,651
<i>User Fees</i>	0	-49	-79	-136	-179	-737	-1,180	-4,865
Net Mandatory Policies	31,200	22,213	13,102	16,927	28,800	39,358	120,400	352,906

### THE PRESIDENT'S REVENUE PROPOSALS

The budget calls for a reduction in revenue of \$240 billion over the 2002-2007 period, including \$65 billion in fiscal year 2002. The bulk (\$149 billion) of that amount results from the economic security legislation. Other initiatives include providing tax incentives to encourage the purchase of health insurance coverage (\$68 billion over the 2003-2012 period), charitable giving (\$40 billion), and energy independence (\$9 billion) (see Table 4 below). In addition, the extension for two years of tax provisions that expired in 2001 reduces receipts by \$4 billion over both the 5-year and 10-year periods.

**Table 4: The President's Revenue Proposals**

(by fiscal year, in millions of dollars)

	2002	2003	2004	2005	2006	2007	2003-07	2003-12
Economic Security Plan	-62,000	-65,000	-47,500	-9,500	17,000	18,000	-87,000	-43,500
Charitable Giving Incentives	-828	-2,030	-2,014	-2,903	-4,225	-4,291	-15,463	-40,218
Invest in Health Care	—	-887	-2,985	-5,008	-5,698	-6,946	-21,524	-67,879
Increase Energy Production/Conservation	-402	-801	-953	-1,071	-1,294	-1,411	-5,440	-9,141
Extend for 2 Years Provisions that Expired in 2001	-1,437	-2,517	-1,186	-210	-129	-88	-4,130	-4,335
All Other	47	-1,872	-4,492	-9,235	-11,688	-14,697	-41,984	-425,947
Total Revenue Proposals	-64,620	-73,107	-59,130	-27,927	-6,034	-9,433	-175,541	-591,020